

Senate Finance Oversight Subcommittee

Report on the SC Rural Infrastructure Authority

August 2017



Members of Subcommittee:

Nikki G. Setzler, Chair
Paul G. Campbell, Jr.
Thomas D. Corbin
Kent M. Williams

The Rural Infrastructure Authority was established to provide financial assistance through grants and loans to qualified water and sewer infrastructure projects for the purpose of meeting health and environmental standards as well as to aid in the economic development efforts of local governments. The Authority has pursued this mission with the goal of improving opportunities for economic success and enhancing health and livability in rural communities throughout the state. RIA should establish a policy regarding an appeals process for unsuccessful grant applicants, ensure that fund balances do not continue to grow and develop a more systematic process for obtaining feedback from grant applicants.

I. Agency at a Glance

Mission

The mission of the Rural Infrastructure Authority (RIA) is to select and assist in financing qualified rural infrastructure projects that accomplish an essential public purpose of providing environmental facilities and services to meet public health and environmental standards as well as to aid in the development of trade, commerce, industry, agriculture, aquaculture and employment opportunities.

Governing Authority:

The Rural Infrastructure Authority is governed by a seven member Board of Directors created in statute with the Secretary of Commerce serving ex-officio as the Chairman. Each of the six appointed members must reside in or represent an area designated as distressed or least developed. The Governor appoints two members and one member is appointed by each of the following; the President Pro Tem of the Senate, Speaker of the House of Representatives, Chairman of the Senate Finance Committee and Chairman of the House Ways and Means Committee. Appointed Members serve for a term of four years or until their successor is appointed. However, members of the General Assembly may be Commissioners “and, if so appointed, shall serve ex officio”. It is unclear what the expiration dates listed for Representatives Clyburn and Pitts signify based upon their ex officio status.

Position	Position Title	Current Members	Appointed By	Appointed Date	Expiration Date
Commerce Sec.	Chairman	Hitt, Robert M. III	Ex Officio	1/13/2011	
Seat 1	Member	Shuler, Jasper W.	Governor	9/1/2012	9/1/2014
Seat 2	Member	Anderson, David E.	Governor	11/18/2011	11/18/2015
Seat 3	Member	Clyburn, William "Bill"	Chairman, House Ways and Means Committee,	1/21/2015	1/21/2019
Seat 4	Member	Gambrell, Michael W.	President Pro Tempore of the Senate	2/2/2017	
Seat 5	Member	Pitts, Michael A.	Speaker, House of Representatives	3/2/2015	3/2/2017
Seat 6	Member	Kellahan, William N. Jr.	Chair, Senate Finance Committee	3/29/2011	3/29/2015

History

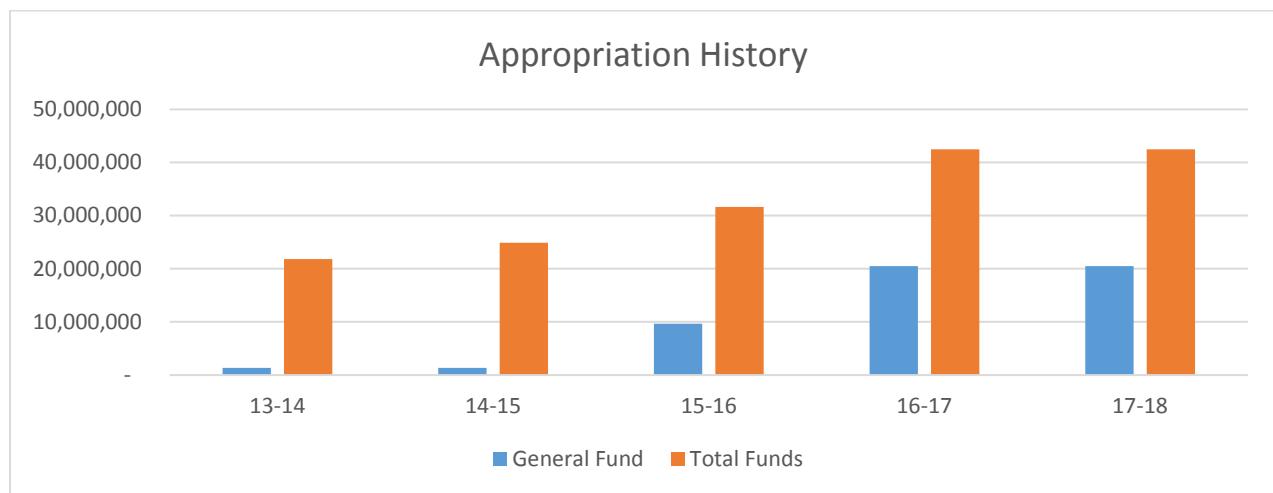
Recognizing the inadequate condition of much of the infrastructure in rural portions of the state to meet the needs of residents and support or attract industry, the SC General Assembly created the SC Rural Infrastructure Authority by Act 171 of 2010 despite a veto by the Governor. However, the agency did not begin operations until funding was provided in FY 13. In November of 2012, the Board selected an employee at the Department of Commerce as the agency director and began making grants the following year. In the first year of operation, the Authority awarded 31 grants totaling \$9.6 million. Proviso 80A.32 of the FY 13 Appropriations Act transferred all monies under control of the Budget and Control Board, Office of Local Government to the RIA. The Restructuring Act of 2013 (Act 121), completed the establishment of this entity by transferring the Office of Local Government which included the State Revolving Loan Fund to the RIA. The RIA is now in the fourth year of operation as an independent entity.

Staffing

The Authority has nine classified FTE's and one unclassified FTE (the agency Director) authorized in the Appropriation Act. Of these, eight of the classified positions are currently filled. The Director and one other staff person were hired from the Department of Commerce while three individuals were transferred from the Budget and Control Board with the State Revolving Loan Fund. One of the transferred staff subsequently left and was replaced. Since the Authority's inception there has never been more than nine staff members at any given time and there has been little turnover. RIA does not currently employ any temporary or contract employees.

Revenue

As can be seen in the chart below, state General Fund Appropriations have increased from 6% of the agencies total fund allocation in FY 15 to 48% of the total allocation in FY 17. The Authority did not request any funding increases for FY 18 and the General Assembly did not make any changes to the agency's budget in the Appropriations Act for that year. The Executive Director indicated that the recurring funds available were adequate at this time for the RIA to carry out the stated mission. In addition to the state General Fund appropriation, the agency's revenue is derived primarily from the federal funding for the Revolving Loan Fund and repayment of loans.



The increase in funding from FY16 to FY 17 reflected in the table above is attributable to an appropriation provided to the Authority to make grants to entities that had not previously qualified for the program.

Fund Balance

The fund balance and the obligations have been steadily increasing in the Rural Infrastructure Fund over time.

	<u>Fund Balance</u>	<u>Obligations</u>
FY 13	\$42.7 M	\$9.7
FY 14	\$46.9 M	\$19.3
FY 15	\$46.6 M	\$22.11
FY 16	\$47.5 M	\$25.9
FY 17	\$55.6 M	\$34.8

These trends are to be anticipated for a relatively new agency. The increase in the fund balance as the obligations increase is due primarily to the nature of the projects funded. Construction projects often take time to begin and can last two years or more before utilizing all of the funding. One factor that can impact the time it takes to begin and then complete a project is the availability of private contractors engaged in water and sewer construction activities. The RIA is sensitive to the need to ensure that its grants do not cause dramatic variation in the market for these contractors that might result in peaks and valleys in available contracts for them to bid on. Such distortions in the market could negatively impact businesses when few grants are awarded and drive up the costs of projects for local governments as they compete to secure contractors in years that have larger volumes of grants awarded. To ensure geographic distribution of the grants, the Board has made it a policy to only have one active grant within a county at any given time. However, since it typically takes from 18 to 24 months for a project to be completed and closed out, the Board has indicated that they will soon need to rethink this policy to ensure that available funds are used for the intended purpose and to prevent fund balances from growing. The Board has a plan that is projected to result in a gradual reduction of the fund balance beginning in FY 20.

Need

The EPA conducts a Clean Watersheds Needs Survey and a Drinking Water Needs Survey every four years. The reports largely rely upon states to document the unmet needs in the state. In 2004 it was reported that SC had \$828 million in wastewater treatment needs and \$31 in storm water management needs. The 2008 report indicated that these needs had declined to \$537 million and \$29 million respectively. RIA staff indicate that they believe the study under reported the real needs in the state. South Carolina has subsequently declined to participate in this survey. Although South Carolina did not fully participate in the 2011 Drinking Water Needs Survey, it estimated that the state had \$1.8 billion in needs for repair, replacement and upgrading of Consumer Water Systems (CSW). Because South Carolina received only the minimum funding allocation based upon the previous survey it had the option to not fully participate in the data collection process. The last comprehensive state-wide needs assessment was conducted in 2001 by the Office of Regional Development and funded by the U.S. Economic Development Administration. This study reflected \$5 billion in water and sewer needs.

Agency Structure

The RIA is divided into two Offices which report directly to the Executive Director. These are the Office of Grant Programs and the Office of Local Government. The Office of Grant Programs manages the competitive grants process and has three program managers who report directly to the Executive Director while the Office of Local Government administers the financial aspects of the State Revolving Loan Fund program and has three

fiscal analysts who report to the Executive Director via the SRF Program Director. Because the objectives of these two programs are very different, they operate independently from each other.

Administrative Costs

Although, established as an independent agency with a segregated budget in the State Appropriations Act, the RIA has some structural ties to the SC Department of Commerce. The Executive Director of the Department of Commerce serves as the ex-officio Chairman of the RIA Board, the Executive Director of the Authority was hired from Commerce and the two agencies are co-located in the Capitol Center building. This relationship has allowed the Authority to procure many ancillary support functions from Commerce such as Human Resources, Information Technology, office space, procurement and various budget and accounting functions. Although it causes the actual cost of administering the programs to be less obvious, this arrangement reduces redundant costs by avoiding the need for additional staff. This practice seems efficient for an agency as small as the RIA and allows the funding saved to be utilized in the grants programs.

Grant Program

Grants are awarded competitively twice a year in the Spring and Fall to units of local government to support the two broad objectives of Basic Infrastructure Improvements and Economic Infrastructure. Grant applications are competitive within each of the two categories. Typically the maximum award for an individual grant is \$500,000. However, in some instances the Board has authorized larger amounts. This is often due to a substantial need for and/or significant impact of the project. The grant program is a state funded program and operates on General Fund Appropriations. This program was initially established to provide funding to units of local government located in areas designated as distressed and/or least developed as defined in Section 12-6-3360 of the SC Code of Laws for 2009. In FY 16-17, the grants program was expanded via proviso 54.5 (statewide water and sewer fund) in the appropriations act to include qualified infrastructure projects not eligible for the Rural Infrastructure Fund. Additional funding was provided to the agency to fund the grants for this expanded mission.

Projects are evaluated by staff based upon Need, Impact and Feasibility.

- Need is documented in numerous ways. However, localities that are operating under a consent decree with DHEC are given priority.
- Impact is primarily measured by the number of people affected/served. In the case of Economic Infrastructure grants, this is primarily measured by the number of jobs created as a result of the funded project.
- Feasibility refers to ensuring that the project can be accomplished and meet the stated goals. This includes many variables including ensuring that the preplanning and engineering has been properly conducted, that the required sources of financing for the project have been properly secured, and finally that revenues from the project will be adequate to pay any loans and maintain the system in the future.

Once the staff has conducted their review, they prepare funding recommendations regarding which projects should receive funding and at what level. Proposals are not always funded at the level of the request and sometimes proposals must be revised to qualify for funding. The recommendations for funding are presented to the Board for a final determination. The Board then votes to approve, disapprove or amend the staff recommendations for each of the projects.

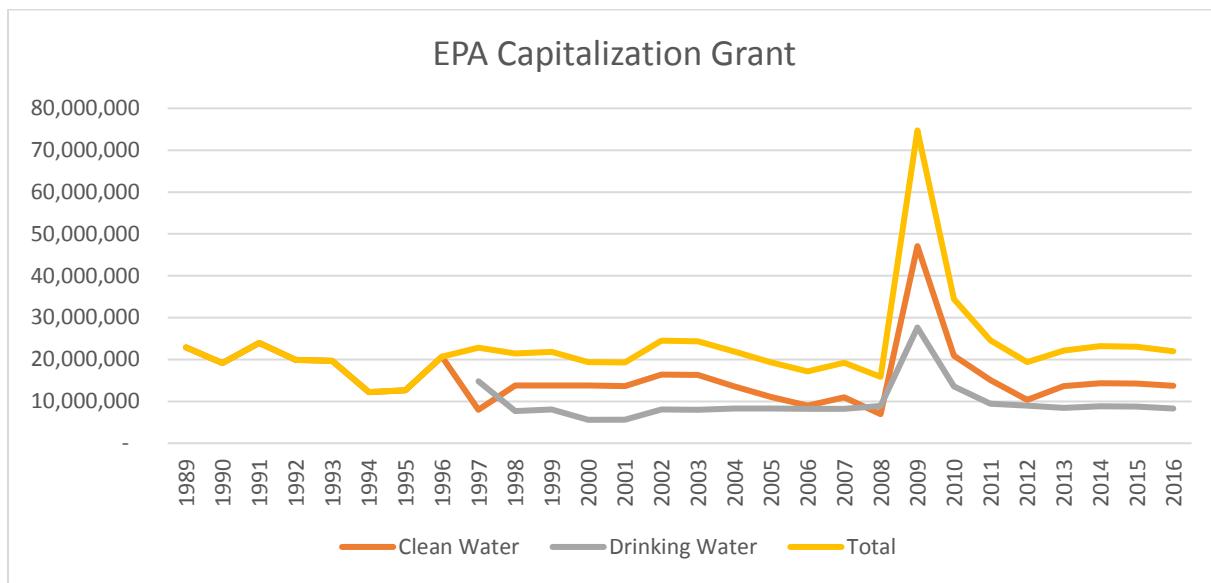
Grant funding is only for actual construction. Funding for other aspects of the project such as planning, engineering and acquisition must be secured by the grantee through other funding sources. For projects in tier III and tier IV counties designated, no local match is required. Per code section 12-6-3360, these are the 24 counties

in the state with the highest unemployment and the lowest per capita income. The 22 counties designated as either tier I or tier II based upon their relative per capita income and unemployment rates are required to provide a 25% local match for construction grant funds awarded. In all cases, grantees are encouraged to leverage additional funding to magnify the impact of the grants.

State Revolving Fund (SRF)

Comprised of two separate federal programs, the SRF program provides low-interest rate loans to units of local government for building or repairing wastewater and drinking water plants or distribution systems and stormwater quality improvement projects. Although this program has been operating since 1989, it was only transferred to the Rural Infrastructure Authority in 2014. The SRF is administered jointly by the Department of Health and Environmental Control (DHEC) and the Rural Infrastructure Authority. DHEC is the designated grantee for the annual federal capitalization grant from the Environmental Protection Agency (EPA). In addition, DHEC determines which applicants are eligible for participation in the loan program. The Office of Local Government essentially operates as the fiscal agent for the program. In this role, they determine if the project is financially feasible and has the ability to generate funds to repay the loan based upon the revenues generated from the project. The low interest loans provided through the SRF target larger regional water and sewer systems and when possible encourage coordination and/or consolidation of the separate entities for improved effectiveness and efficiency. Loan amounts have ranged from \$1 million up to \$35 Million. Since its inception, the SRF has closed loans totaling \$1.3 Billion.

The program is supported by a combination of federal funds, state matching funds and the money repaid by the loan recipients. The required match is provided through a state appropriation and is part of the total loan. Loans provided by the SRF are secured through revenue bonds and ensuring that the funded project will be able to repay the loan is a significant function of the Office of Local Government. Staff indicates that there has never been a late payment in the entire 28 years.



The total amount of the EPA capitalization grant has varied in time since the inception of the program with a low of \$12.2 million in 1994 to a high of \$34.4 million in 2010 with 2009 appearing as an anomaly due to the separate ARRA grant which accounted for an additional \$59.6 million in funding that year. Although there have been annual exceptions, the clean water grant averaged approximately 60% of the total funding since 1997 with the remaining 40% attributable to the drinking water grant.

Examples of the types of projects funded include:

Drinking Water Projects

- Upgrade of a Surface Water Treatment Plant
- Looping of Distribution Lines
- Interconnecting Systems
- Addition of New Wells
- Adding Treatment or Storage Components
- Water Meter Replacement
- Relocation of Waterlines due to Road Widening Projects

Wastewater Projects

- Upgrade and Expansion of a Wastewater Treatment Plant
- Sewer Line Rehab and Replacement
- New Pump Stations and Force Mains
- Collection Systems for Areas on Septic Tanks
- New Interceptor
- Non-point Source Projects
- Relocation of Wastewater Lines due to Road Widening Projects

Coordination

In most cases, the grants provided by the RIA will only fund a portion of the approved projects. Therefore, the grantee must either use existing funds or find other sources of funds to finance the project. One of the services provided by the RIA is to assist local governments in obtaining other funding for qualified projects. The RIA participates in the SC Infrastructures Funders Coordinating Committee with the U.S. Department of Agriculture Rural Development, U.S. Economic Development Administration, SC Department of Commerce Community Development Block Grant & Appalachian Regional Commission, SC Department of Health & Environmental Control (SRF) and the SC Rural Infrastructure Authority. The staff work with other state and federal agencies to ensure that funding is coordinated to accomplish the goal of ensuring that needed water and sewer projects receive the funding necessary for completion and operation. An additional benefit to participation in the Coordinating Committee is the effort to coordinate policies to ensure that funders do not impose conflicting policies and requirements on the grantees. This comports with the agency's goal of trying to assist and facilitate getting needed projects funded and not unintentionally becoming an obstacle for grant applicants.

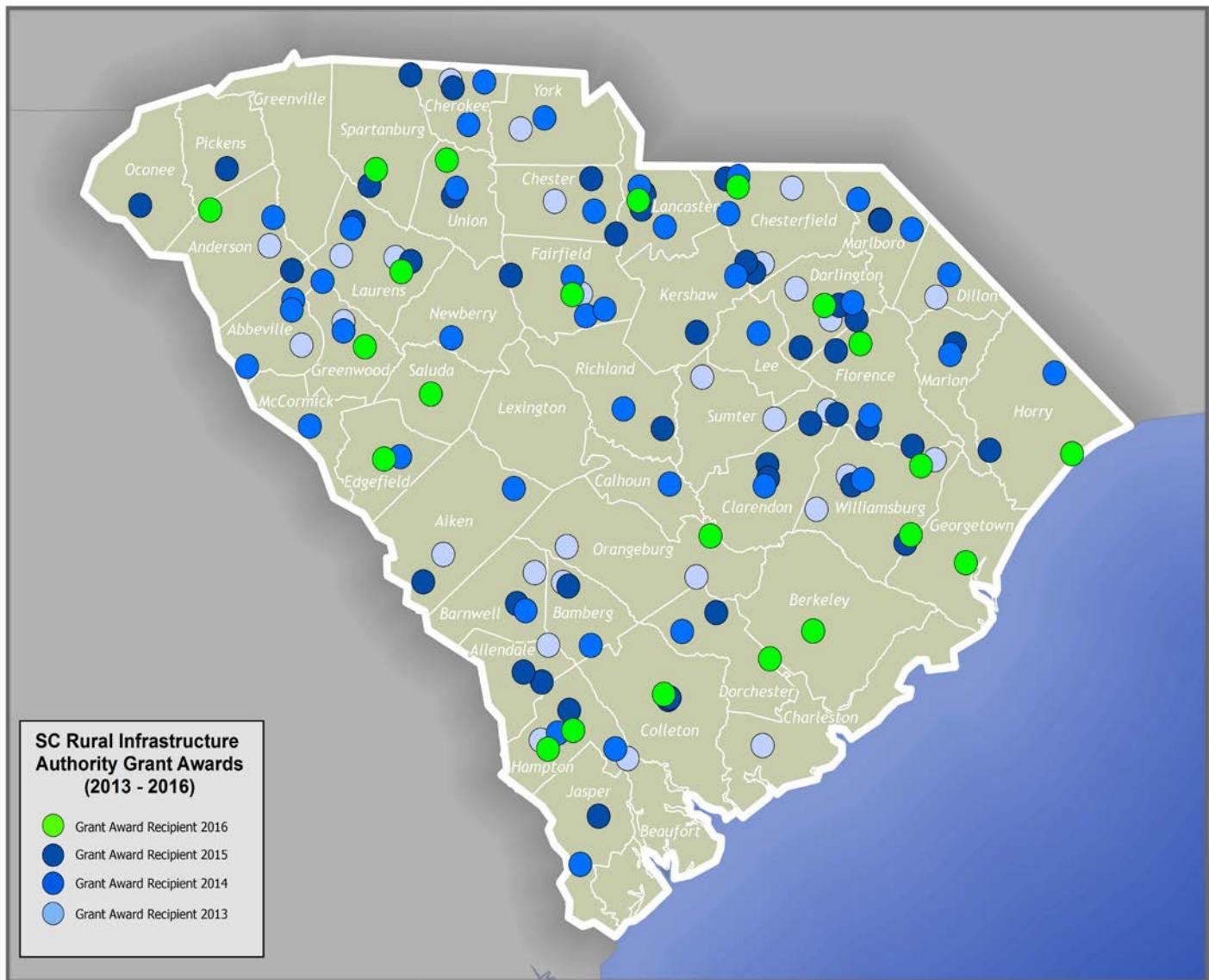
Technical Assistance

Technical assistance begins with an application workshop conducted in the summer to assist potential applicants in preparing for the Fall application submission. Once applications are submitted, RIA staff continue to work with local communities to modify their applications in order to improve their chances of receiving funding. Once the awards have been approved the staff begins working with those that were not given a grant to amend their applications to bring them into compliance with the application criteria. These applicants are allowed to have their applications from the Fall round of awards considered in the subsequent Spring award cycle. In lieu of another workshop, a webinar is provided at the beginning of the year to help applicant prepare for the Spring application cycle.

Compliance with Legislative Intent

The General Assembly's intent for this agency is clearly to facilitate the funding of water and sewer infrastructure projects throughout the state which might not otherwise be able to secure funding. These projects are expected to protect the environment, ensure access to clean drinking water and promote economic development. The Rural Infrastructure Authority has been careful to ensure that its activities accomplish these goals effectively and to maximize the resources available in achieving these goals. The presence of three legislators on the agency's Board further ensures this outcome.

Map of Awards 2013-2016



Geographic Dispersion

Although the criteria for the awarding of grants does not specifically include geographic dispersion, the awards process has resulted in grants being awarded in every region of the state. The RIA staff indicate that while this

was a concern, the priority of need led to this distribution. The additional funding for counties previously ineligible for awards will probably result in even greater distribution of funds.

II. Issues

A. Appeals Process

Currently, the agency reports that there is no policy regarding a formal appeals process for a grant applicant that does not obtain funding through the awards process. Instead, the RIA staff provides technical assistance to the entity. When unsuccessful applicants were contacted, they indicated that they understood the reasons their application was not funded and expressed satisfaction with the technical assistance from the RIA. While there are no known instances of an applicant disputing the funding decisions of the Board in the past four years, a policy to address this contingency in advance might be prudent.

- **Agency Recommendation**

The Rural Infrastructure Board of Directors may wish to adopt a formal appeals policy. Such a policy might allow the applicant to address any concerns directly to the Board clarifying any assertions regarding why their application was deserving of funding without the filter of the RIA staff recommendation and/or presentation to the Board.

B. Fund Balance Growth

As noted above, year end fund balances in the Rural Infrastructure Fund have grown consistently since the agency's inception. Although the staff and the Board are aware of this and anticipate a trend line that will result in declining balances the increase in state funding raises a modest concern about the accruing balance.

- **Agency Recommendation**

RIA staff should continue to monitor the year-end balance in the fund and continue reporting these balances to the Board of Directors. The Authority should attempt implement the plan already in place to award grants to bring these balances down to a level deemed appropriate by the Board.

- **Legislative Recommendation**

As part of the appropriation process, the General Assembly should monitor the balance in the Rural Infrastructure Fund to ensure that the appropriated funds are being used for the intended purpose and as an indication of the agency's budgetary requirements.

C. Assessment of Need

Although the need clearly exceeds the funding, it is impossible with the data available to determine the actual level of need or the progress being made towards meeting that need. Also, since the EPA studies used to determine the state's federal funding allocations have not been updated SC is not eligible for proportionate increases in the State Revolving Fund federal capitalization grants.

- **Legislative Recommendation**

The General Assembly may wish to direct the Department of Health and Environmental Control to participate fully in the EPA studies. In addition, the state may wish to commission a statewide study on the water and sewer infrastructure to determine the magnitude of the problem to be addressed.

D. Satisfaction Survey

From conversations with grant applicants, it is apparent that the RIA has fostered an open and amicable relationship with local governments. However, a formal survey including an opportunity for recommendations about process improvements might provide valuable feedback to the RIA staff and the Board about problems or system improvements to further improve the grants process.

- **Agency Recommendation**

The Authority should develop a survey tool for grant applicants to provide constructive feedback to the agency.